

AS-20 Earning Per Share (EPS)

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Applicability and Nature

Applicable : 01/04/2001 / 01/04/2008



Mandatory for listed a) Mandatory for Non-SMC
(Without exemption)

Disclosures of b) Mandatory for SMC
diluted EPS is exempt (with partial exemption)

Note on exemption: The disclosure of Basic EPS is not exempted to a SMC because all the Co. are required to present Basic EPS in Part IV of Schedule VI

Types of EPS

↓
Basic EPS

↓
Diluted EPS

Important notes:-

1. As per the provisions of AS-20, calculation of EPS is mandatory irrespective of level of profits. [It means that EPS should be calculated even if profits are negative or Nil because the main objective of AS-20 is to compare results of two different financial years.]
2. As per the provisions the calculation of Basic EPS and diluted EPS are equally prominent. It indicates that selective disclosures are not allowed except in case of SMC.

Explanation of Basic EPS

$$\text{Basic EPS} = \frac{\text{Earning available for Equity Share Holders}}{\text{Weighted Average No. of Shares}}$$

Calculation of Earning Available for Equity Shareholders

EBIT	xxxx
(-) Interest	(xxxx)
EBT	xxxx
(-) Tax	(xxxx)
EAT	xxxx
(-) Preference Dividend (including EDT)	(xxxx)
EAT	xxxx

Important points to be considered for the calculation of EAE:-

1. The calculation of EAE should include adjustment in Prior Period Items because rectification ⁱⁿ ~~of~~ ⁱⁿ ~~of~~ is not allowed. (As per AS-5)

2. In the calculation of EAE, the extra-ordinary items be included but as per disclosure requirement EPS should also be reported after excluding extra-ordinary items. It means that calculation of EPS should be made including Extra-ordinary items as well as Extra-ordinary items.

3. As per the provisions transfer to reserves and dividend should not be deducted in the calculation of EAE because EPS is calculated on the basis of earnings whether retained or distributed.

4. The calculation of EAE should include Preference on PSC (Cumulative) on per annum basis. The provision will be applicable irrespective of dividend but dividend on non-cumulative preference should be considered only if proposed by Company.

5. As per the provisions, calculation of EAE should consider deduction of Tax expense which is shown in Accounting books as per AS-22 and it includes current tax ^(provision for tax) and deferred tax.

11th Weighted Avg: Amalgamation of Companies

Incse purchasing Co issues new shares to a Vendor Co as a part of payment of PC (Purchase Consideration) then the issued shares should be included in the case of Weighted Avg no of shares according to Nature of Amalgamation. The following two cases may be considered

Case I Amalgamation in the nature of purchase :- In the specified case purchasing Co cannot take over Reserves & Surplus of Vendor Co due to which it is assumed that the new issue is a normal issue and Weighted Avg should be calculated from the point of view of date of issue.

Case II Amalgamation in the nature of merger :- In the specified case, purchasing Co can take over reserves & surplus of Vendor Co due to which Weighted Avg of new shares should be ignored and it should be assumed that Purchasing Co has issued the shares in the beginning of year.

eg Accounting Year : 01.04.2011 - 31.03.2012

	Alt Co	Bltd Vendor Co
EAE (upto 1.10.11)	10000	5000
EAE (after 1.10.11)	10000	-
No of shares		
Before business taken over	5000	1000
after " " "	6000	-

Calculate Basic EPS assuming Amalgamation in the nature of Purchase as well as merger.

Statement showing Total EPS Class wise.

Class	Normal EPS	Extra Per Sh.	Total EPS
A	$\left[\frac{0.94 \times 10}{5} \right] = 1.88$	—	1.88
B	$\left[\frac{0.94 \times 25}{5} \right] = 4.70$	$\left[\frac{25 \text{ shares}}{1 \text{ share}} \right] = 0.25$	4.95
C	$\left[\frac{0.94 \times 5}{5} \right] = 0.94$	$\left[\frac{60 \text{ shares}}{6 \text{ shares}} \right] = 0.10$	1.04

Bonus Shares

As per the provisions of AS-20, the following points should be considered in the calculation of Basic EPS if company issues Bonus Shares during the period:

I. The bonus shares are always issued out of Reserves & Surplus by a company and these shares are also known as Capitalisation of Profits. It indicated that there will be no change in the net worth of the company after bonus issue and ~~it is~~ these shares are always considered out of Past Profits of Company. So weighted average should not (Accumulated).

be calculated for these shares because these are not related to Current Year Profits.

II. The main objective of AS-20 is to compare EPS for two different financial years on uniform basis. So EPS for previous year should be restated assuming Bonus Issue of as a part of No. of shares of PY.

Accounting Standard - 20

EARNING PER SHARE

⇒ Meaning of EPS : It is the earning speed of the entity

⇒ Types of EPS :- There are two type of EPS

- (1) Basic earning per share
- (2) Diluted earning per share.

(i) Basic Earning per share :-

(a) formula =
$$\frac{\text{Earning available for equity share holder}}{\text{weighted no. of outstanding shares.}}$$

(b) Meaning of Earning for ESH :-

	Profit after tax	xxx
(-)	Preference dividend	(xxx)
(-)	Preference dividend tax	(xxx)
	Earning for equity share holder	xxx

Notes:

- (i) Profit after tax is after EOI and PPT.
- (ii) Profit after tax should be after all taxes
- (iii) Preference dividend is considered if Question Required to proposed pref dividend.
- (iv) If Question is silent
 - (i) Pref share is cumulative then deduct preference dividend
 - (ii) Pref share is non-cumulative then ignore dividend.
- (v) If Question is silent all the pref share are assumed

Diluted Earning Per Share:

Meaning of diluted EPS: (i) It means Basic EPS after giving effect of potential equity shares

(ii) Potential equity shares are those for which consideration has been received but allotment is still pending:-

(iii) Eg. of potential shares:

- (A) Share Warrant
- (B) Convertible Preference Share Capital
- (C) Convertible Debenture
- (D) Unvested ESOP
- (E) Convertible Bond
- (F) Convertible loan
- (G) Share application money pending allotment

(iv) Following steps are applied

- (i) Calculate BEPS
- (ii) Calculate Incremental EPS
- (iii) Prepare dilution sheet.

EXP-15

Calculate BEPS, DEPS, EPS

Earning after tax - 20,00,000

No. of shares out. = 10,00,000

Con. debt

8% deb issued ₹20,00,000

In future to be converted into 5,00,000 shares

Tax rate = 40%

Sol

$$\text{BEPS} = \frac{20,00,000}{10,00,000} = 20$$